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TO AMEMBASSY BONN PRIORITY

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E.O. 11652:

TAGS: EAID, EFIN

SUBJECT:TRUST FUND

REF STATE 279301 (1974))

1. PURSUANT TO A DEVELOPMENT COMMITTEE REQUEST IN JANUARY, THE WORLD BANK AND INTERNATIONAL MONETARY FUND HAVE CIRCULATED A PAPER ASKING FOR GUIDANCE ON THE POSSIBILITIES OF ESTABLISHING A SPECIAL TRUST FUND. THE PAPER IS TO BE DISCUSSED BY THE TWO BOARDS ON APRIL 8 AND 9.

2. THE CONCEPT OF A SPECIAL TRUST FUND WAS PUT FORWARD BY THE U.S. IN DECEMBER 1974 AS A RESPONSE TO BALANCE OF PAYMENTS PROBLEMS IN LDC'S ARISING OUT OF

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INCREASED OIL PRICES, HIGHER FOOD IMPORT REQUIREMENTS AND

RECESSION IN INDUSTRIAL COUNTRIES. BANK/FUND ASSESSMENTS AT THE DEVELOPMENT COMMITTEE MEETING IN JANUARY ESTIMATED A PAYMENTS FINANCING DEFICIT FOR THE UN LIST OF MOST SERIOUSLY AFFECTED COUNTRIES AT \$2.5 TO \$3.5 BILLION. IN FEBRUARY, THE DAC PICKED UP THE SAME FIGURE. ALTHOUGH OUR OWN PRELIMINARY ESTIMATES OF THE FINANCING PROBLEM ARE SOMEWHAT LOWER, THERE SEEMED TO BE BROAD CONSENSUS THAT THE BALANCE OF PAYMENTS PROBLEM DESERVES PRIORITY TREATMENT. HOWEVER, THERE IS LESS CLARITY ON EXACTLY WHICH COUNTRIES SHOULD BE TREATED AS "MOST SERIOUSLY AFFECTED." THERE MAY WELL BE A NUMBER OF OTHER COUNTRIES NOT ON THE UN LIST WHICH ARE CURRENTLY EXPERIENCING MORE SEVERE PAYMENTS PROBLEMS THAN THE MSA'S AS PRESENTLY DEFINED.

3. THE FUND/BANK STAFF PAPER, WHILE ACKNOWLEDGING THE EXISTENCE OF AN MSA PAYMENTS IMBALANCE OF SUBSTANTIAL DIMENSIONS, REFLECTS CONFUSION ON A NUMBER OF BASIC ISSUES BOTH WITH RESPECT TO THE PRECISE NEEDS OF THE PROBLEM ITSELF AND REMEDIES TO DEAL WITH IT. IN PART THIS STEMS FROM THE DECISION BY THE DEVELOPMENT COMMITTEE TO LUMP TOGETHER FOR STUDY PURPOSES TWO DIFFERENT TRUST FUND PROPOSALS, ONE BY THE U.S. AND THE OTHER BY IRAN.

4. THE U.S. PROPOSAL OF DECEMBER 1974 CALLED FOR ESTABLISHMENT OF A TEMPORARY TRUST FUND MANAGED BY THE IMF WHICH WOULD LEND AT HIGHLY CONCESSIONAL RATES TO POOREST LDC'S ANTICIPATING SEVERE PAYMENTS DIFFICULTIES DUE TO EXTERNAL FACTORS. THE FUND WAS TO BE FINANCED BY OPEC NATION CONCESSIONAL CONTRIBUTIONS AND FROM OTHERS IN A POSITION TO MAKE CONCESSIONAL FUNDS AVAILABLE IN CONJUNCTION WITH USE OF A PORTION OF IMF GOLD.

5. THE IRANIAN PROPOSAL, ALSO DISCUSSED IN THE JANUARY DEVELOPMENT COMMITTEE MEETING, WOULD BE FINANCED BY CONTRIBUTIONS FROM OPEC AND OECD COUNTRIES AND WOULD BE DEVOTED PRIMARILY TO CONCESSIONAL DEVELOPMENT LENDING RATHER THAN SHORTER-TERM BALANCE OF PAYMENTS FINANCING. IN ITS EARLIEST YEARS, HOWEVER, THE IRANIAN FUND WOULD PROVIDE AN UNSPECIFIED MIX OF BOTH PROJECT AND BALANCE LIMITED OFFICIAL USE

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OF PAYMENTS FINANCING.

6. AT THIS STAGE, WE ARE PUZZLED BY THE APPARENT LACK OF WIDESPREAD CONCERN OVER THE BALANCE OF PAYMENTS PROBLEMS WE ASSUME ARE NOW EMERGING FOR THE DEVELOPING COUNTRIES AS A RESULT OF THE FACTORS CITED IN PARAGRAPH 2 ABOVE. THE FUND/BANK STAFF PAPER ITSELF SEEMS TO REFLECT LITTLE SENSE OF URGENCY ABOUT THE BALANCE OF PAYMENTS PROBLEM AS

SUCH.

-- LACK OF CONCERN SEEMS TO EXIST
IN OTHER OECD AS WELL AS LDC CAPITALS.

7. WE WISH TO COMPARE OUR SENSE OF THE PROBLEM WITH THAT
HELD BY OTHER MAJOR COUNTRIES AT THIS TIME AND REQUEST
YOU EXPLORE IN LOW KEY THE FOLLOWING QUESTIONS AT
MINISTRY LEVELS RESPONSIBLE FOR FUND/BANK INSTRUCTIONS.

A. DO THEY PERCEIVE A MAJOR BALANCE OF PAYMENTS FINANCING
PROBLEM IN LDC'S EMERGING IN 1975 OR 1976?

B. IF SO, HOW DO THEY REGARD THE RELATIVE MERITS OF THE
3 OR 4 POSSIBLE SOLUTIONS NOW ON THE TABLE?

C. DO THEY LOOK TO THE IMF OIL FACILITY AND THE SUBSIDY
ACCOUNT TO FULFILL MUCH OR MOST OF THE FINANCING PROBLEM
IN 1975? THEY ARE, OF COURSE, AWARE THAT THIS FACILITY
WILL NOT BE AVAILABLE IN 1976 AND SO THERE REMAINS A
NEED FOR CONSULTATION ON THESE PROBLEMS. PROSPECTS FOR
CONTRIBUTIONS TO THE SUBSIDY ACCOUNT ARE NOT CLEAR.
SUBJECT IS TO BE DISCUSSED IN IMF BOARD APRIL 2.
WITHOUT THE ACCOUNT THERE IS NO PRESENT MECHANISM FOR
CONCESSIONAL FINANCING OF BALANCE OF PAYMENTS NEEDS.

D. IF THE PROBLEM IS PERCEIVED AS URGENT AND NONE OF
THE PRESENT PROPOSALS SEEMS ADEQUATE OR APPROPRIATE TO
THE TASK, IS THERE SOME OTHER APPROACH BEING THOUGHT OF
THAT HAS NOT YET BEEN REVEALED?

8. WE ALSO REQUEST VIEWS ON THE USG PROPOSALS FOR THE
SPECIAL TRUST FUND AND ON THE CONTENTS OF THE BANK/FUND
PAPER ON THIS SUBJECT.
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9. EMBASSIES SHOULD AVOID DISCUSSION IRANIAN PROPOSALS
FOR PROJECT ASSISTANCE FUND. IF ASKED, YOU SHOULD NOTE
THAT WE ARE CONCERNED WITH URGENT BALANCE OF PAYMENTS
PROBLEM WHICH SHOULD NOT BE ADDRESSED THROUGH PROJECT
ASSISTANCE FUNDS, BUT ARE INTERESTED IN EFFECTIVE MECHA-

NISM FOR DEALING WITH THE PROBLEM AND WILLING TO SEEK
COOPERATIVE RESOLUTION OF VARYING APPROACHES.

10. REQUEST RESPONSE EARLIEST. ACTION TREASURY. KISSINGER

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